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Export and Investment Promotion: Sustainability and Effective Service Delivery

Volume 1: Synthesis of Findings From Latin America and the Caribbean
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by

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FOREWORD

Since the early 1980s, support to institutions promoting export and investment in developing countries has been a focal point of the Agency for International Development's (A.I.D.) private sector assistance strategy. In 1989, A.I.D.'s Center for Development Information and Evaluation (CDIE) and the Bureau for Latin America and the Caribbean initiated a major review of A.I.D.'s experience with trade and investment projects in Latin America and the Caribbean. Three factors prompted the study: the large volume of resources committed to trade and investment projects, the critical importance of supporting private sector investment and nontraditional export growth, and the expected increase of funding for export promotion and investment promotion.

In the summer of 1990, CDIE published the initial study: Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean, A.I.D. Evaluation Special Study No. 69. The study provides a conceptual framework permitting a comparative analysis of trade and investment strategies used by A.I.D. in constrained environments.

This field assessment is a follow-up to that study. It focuses on 10 promotional institutions operating successfully in favorable policy environments in Costa Rica, the Dominican Republic, Guatemala and Chile. The study addresses a central question facing A.I.D. decision-makers: Do export- and investment-promotion organizations merit continued support from A.I.D.? And if so, Which programs have the most impact on export and investment? The study arrives at three important conclusions:

1. Promotional institutions can make a modest but important contribution to building nontraditional exports, and, in a favorable policy environment, their services can accelerate the

process of export growth. Support to these institutions also offers an attractive return to donor resources. However, the total impact of promotional programs on nontraditional export performance is marginal, unless the investment is large relative to national exports and it is made in a sector poised for take-off.

2. The single most important service a promotional institution can provide is information, particularly market information and buyer contacts. But given the different needs of local and foreign firms, investment programs should not be combined with export promotion programs.

3. Promotional institutions are not effective substitutes for policies favoring export-oriented investment.

We believe this study provides some important insights into the effectiveness and limitations of A.I.D. support to export- and investment-promotion institutions.

A follow-up CDIE assessment of export and investment promotion in Asia, forthcoming, will add to A.I.D.'s knowledge of this development experience.

We encourage A.I.D. senior managers and staff to draw on this review in their planning, implementation, and monitoring of export promotion and investment promotion projects.

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June 1992

SUMMARY

A.I.D. has made assistance to promotional institutions a focal point of its trade- and investment-promotion strategy worldwide. Support to these institutions in Latin America and the Caribbean alone has totaled about $500 million over the past 10 years. The central issues for A.I.D. decision-makers are simply stated:

> Do trade- and investment-promotion organizations merit continued support from A.I.D.?
>
> If so, which programs have the most impact on exports and investment?

This study, sponsored jointly by the Directorate for Policy/Center for Development Information and Evaluation (POL/CDIE) and the Bureau for Latin America and the Caribbean (LAC), examines the experience of promotional institutions in the

Caribbean Basin Initiative (CBI) region and Chile to answer these questions. It measures the impact of the programs on three levels: assisted firms, national export performance, and total economic return. On the basis of these findings, the study assesses the strategies used by successful promotional programs to suggest the institutional structure and service mix promising the greatest impact on exports, investment, and jobs.

The study focuses on 10 promotional institutions in Costa Rica, the Dominican Republic, Guatemala, and Chile. The findings rely heavily on a survey of 162 foreign and local exporting firms in the four countries, including 110 firms assisted by the promotional institutions and 52 unassisted firms in the agricultural and light manufacturing sectors. (See Appendix A, Methodology, in Volume 2 of this study, available from the A.I.D. Library as CDIE Working Paper No. 146.)

Trade- and Investment-Promotion Organizations Merit Continued Support

The study reached three main conclusions on the value of promotional institution programs:

> Promotional institutions provide services that assisted firms consider highly valuable to their export growth. A.I.D.-supported institutions provided a high proportion of services rated by the firms as having an impact: 48 percent in the agricultural sector and 23 percent in the manufacturing sector. Local agricultural firms found technical assistance for production particularly helpful. The value of the services to the firms is confirmed by their performance: Assisted firms in both sectors registered more rapid growth in exports than did unassisted firms, and assisted manufacturing firms generated greater growth in total employment than did unassisted firms.
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> Promotional institutions provide an attractive rate of return to A.I.D.'s investment, conservatively estimated about 25 percent in real terms. This estimate is based on direct, short-term benefits generated by increased exports and employment and does not include benefits from future investment, impact on policies, or other sources that are hard to measure but nonetheless important.
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> Despite the benefits to individual firms, the total impact of promotional programs on the performance of nontraditional exports at the national level is generally not dramatic. promotional institutions accounted for a modest 5 to 30 percent of the growth in nontraditional exports in the assisted sectors. Although the firms valued the services they received, the programs

reached only a small proportion of the total export firms. Thus, promotional programs have the potential to make a major contribution to national nontraditional export growth but only when the sector is beginning to take off and the program is large relative to the export sector.

How Should A.I.D. Structure Promotional Programs for Maximum Impact?

The study identified information as the single most important service that promotional institutions can provide to speed the investment process. Although the types of information needed by foreign firms interested in investing abroad and by local exporting firms in developing countries are different, they fall into two broad categories:

> Facts about the market and how it works. For foreign firms eager to invest, market information must focus on the investment climate and the cost of production in the target country; for local firms seeking to export, information must include price data in overseas markets and information on import regulations.
>
> Contact names. For foreign investors, contact information includes referrals to local professional firms, suppliers, and free zones. The most important contacts for local firms are potential foreign buyers or investors.

The differences in the types of information and other assistance needed by different firms suggest that investment-promotion programs should not be combined with export-promotion programs. Investment-promotion programs targeting foreign and local investors should not be combined with export promotion programs targeting local firms eager to export. The study identified two basic strategies for providing information to local and foreign clients, each of which is linked to an institutional structure suited to its implementation.

> Standardized information provided to a broad clientele. For foreign investors, standardized information can be provided by a government promotional agency, one with strong institutional ties to the private sector. For local exporters, a membership organization performs this function well. Both models are potentially sustainable, but political factors, such as the diverse demands of the members, are likely to prevent them from targeting priority sectors.
>
> Customized information provided to a targeted clientele. An independent private entity may be the best option for providing intensive support to foreign investors, and this expensive assistance

must be targeted to ensure maximum impact. A project implementation unit may be the best option for providing the specialized technical knowledge needed by local firms. Neither program has the potential to be self-sustaining, and efforts to achieve financial independence may actually undermine program effectiveness.

Promotional programs of either type appear to be most effective when they work on the frontier of investment activity, where information is the critical input needed by potential investors. For maximum impact, investment programs must continually encourage foreign investment in new unexploited sectors, whereas export-promotion programs must seek out local firms that are ready to export and assist them in making contact with buyers.

On this frontier, the strategies that provide basic but essential information to a large number of firms may well have a greater total impact than those that provide intensive assistance to a few. This conclusion is tentative, however; additional analysis should be a priority to determine the most cost-effective way to support firms' decision-making processes.

In summary, promotional institutions can make a modest but important contribution to building nontraditional exports. In a policy environment attractive to export investment, they can speed the process whereby firms learn of profitable opportunities and take advantage of them. Promotional programs, however, are by no means a substitute for policies that favor export-oriented investment. If there are no profitable opportunities, there is nothing to promote.

GLOSSARY

A.I.D. Agency for International Development

ASI A.I.D.-assisted institutions

CBI Caribbean Basin Initiative

CEDOPEX National Export Documentation Center of the Dominican Republic

CENPRO Center for Promotion of Exports and Investment

CINDE/PIE Investment Promotion Division of the Coalition for Development Initiatives

CINDE/CAAP agricultural development division of the Coalition for Development Initiatives

CORFO Development Corporation, a Chilean Government organization

FUNDACION CHILE private Chilean entity supporting transfer of agribusiness technology

GEXPRONT Guild of Nontraditional Exporters

IPC Investment Promotion Council

JACC Council for Agribusiness Cooperation and Co-investment

LAC Bureau for Latin America and the Caribbean

POL/CDIE Directorate for Policy/Center for Development Information and Evaluation

PROCHILE new governmental unit charged with promoting Chilean exports

PROEXAG Support Project for Exporting Nontraditional Agricultural Exports in Central America

1. INTRODUCTION

The Agency for International Development (A.I.D.) has made promotional institutions a focal point of its export- and investment-promotion strategy worldwide. Institutions promoting export and investment have received substantial assistance from A.I.D. over the past 10 years, totaling about $500 million in Latin America and the Caribbean region alone. As A.I.D.'s trade and investment portfolio expands and matures, the Agency must decide whether to continue funding these institutions and where they fit into the Agency's strategy. The central issues for A.I.D. decision-makers are simply stated:

> Do export- and investment-promotion organizations merit continued support from A.I.D.?
>
> If so, which programs have the most impact on exports from and investment in developing countries?

This study, sponsored jointly by the Directorate for Policy/Center for Development Information and Evaluation (POL/CDIE) and the Bureau for Latin America and the Caribbean (LAC), reviews the experience of promotional institutions in Chile and the region comprising the Caribbean Basin Initiative (CBI) to shed light on these questions. It assesses the impact and value of their promotional services to suggest future directions for A.I.D. programming in trade- and investment-promotion, but it does not seek to evaluate in depth the institutions funded or the projects that funded them.

Four Nontraditional Export Success Stories

To answer the questions posed earlier, the study focused on 10 promotional institutions in four countries that experienced very rapid growth in nontraditional exports during the 1980s: Chile, Costa Rica, the Dominican Republic, and Guatemala. Figure 1 summarizes their export growth over the 1983-1989 period.

Three of these countries (Costa Rica, the Dominican Republic, and Guatemala) participated in the CBI. The special provisions of this program, designed to help the CBI region diversify its export base, appear to have contributed to the strong export growth of these countries. Chile, which has a somewhat longer history of favorable policies, succeeded without these provisions.

All four of the countries pursued policies strongly favoring exports over this period (with occasional lapses), and, in particular, maintained foreign exchange rates that made export-oriented investment attractive to both foreign and local firms. Although the study was not designed to measure the contribution of macroeconomic policies, it is impossible to look closely at these countries without being struck by the overwhelming importance of policy in determining the growth of nontraditional exports.

Data for Chile, Costa Rica, and the Dominican Republic confirm the well-established relationship between volume of exports and the exchange rate. Also there is a close linkage between exchange rates and nontraditional exports. An overvalued exchange rate suppresses exports; moving it to market-determined levels improves export performance. This relationship was confirmed econometrically at the country level in Chile: the real exchange rate accounted for more than 90 percent of the variation in nontraditional exports during the 1983-1989 period.

A closer look at the Dominican Republic also confirms the role of macroeconomic policies: Industrial firms in the country's dynamic free-zone sector increased exports by 275 percent between 1984 and 1989 (in nominal dollar terms). Their colleagues outside the zones faced virtually identical prices but a far less favorable export regime; these industrial exports increased by only 82 percent.

Why Meddle With the Market?

Given the importance of policies, why bother with promotional programs at all? Why not put all the emphasis on establishing an export-oriented policy regime and then trust market forces to attract foreign and local investors?

The rationale for using promotional institutions to give an extra push to market forces is threefold:

1. Market forces work, but not fast enough, when firms must make significant investments to learn about new opportunities on their own. This inefficiency justifies a temporary subsidy to the export sector to improve the sector's access to information and to speed private-sector response to market forces.

2. The first foreign investment in a profitable but underexploited sector (electronics assembly in the Dominican Republic, for example) makes it more likely that other firms will recognize the opportunity and follow. This bandwagon effect' is an externality from which the country and subsequent investors benefit, but from which the first firm does not, and it justifies a subsidy to encourage such path-breaking investment.

3. Promotional institutions themselves can make a major contribution to achieving and, equally important, maintaining export-oriented policies by serving as a voice for the export sector, both foreign and domestic; their role in the policy arena is a public good that deserves more support than the market is likely to provide.

These three arguments share a common weakness: they are easy to make but very hard to prove or disprove. The impact of these indirect factors on exports is virtually impossible to measure. This study has therefore focused on the direct link between the promotional institutions and export-oriented investment, looking in depth at the services provided to foreign and local firms and assessing the impact on their export performance. The authors do not deny that the indirect impacts cited above may be important and may, in and of themselves, justify investing in promotional institutions in a specific instance; but we believe the analysis is strengthened by excluding benefits that are nearly impossible to substantiate.

Key Issues Addressed in This Study

This study examines five factors that together determine whether promotional institutions are worth supporting and how their programs should be structured for maximum impact on exports, investment, and jobs:

1. Firm-level impact: Do these institutions have an impact on the firms they assist?

2. National-level impact: Do these institutions have an impact on exports and foreign investment at the national level?

3. Economic return: Is support to these

institutions economically attractive and cost-effective?

4. Service mix: What service strategies appear to have the greatest impact?

5. Institutional structure: What institutional models appear to offer the best vehicles for delivering these services?

Methodology

The study followed a modified form of the case study methodology, focusing on 10 promotional institutions (seven in the CBI region and three in Chile) but considering as well the country context in which they operate. The seven CBI-region institutions have received substantial A.I.D. assistance. As a group the study refers to them as A.I.D.-supported institutions (ASIs), although they were not selected as typical institutions supported by A.I.D. Rather, because the study aimed to find approaches that work, it targeted institutions identified as having good programs working in favorable environments in which growth in nontraditional exports was in fact rapid and where a sufficiently long institutional track record already existed to make the search for impact meaningful.

The institutions examined include intermediaries providing either export promotion or investment promotion services. Export promotion programs typically focus on services, such as information on foreign markets or prices, contacts with buyers, and technical assistance to adapt products to foreign market requirements. Clients of export promotion programs include manufacturing firms in developing countries, some of whom are based in export processing zones, or agricultural firms that export nontraditional crops, such as strawberries and melons. Investment-promotion programs typically provide country-specific information (e.g., investment regulations), sector-specific information (e.g., constraints facing the electronics industry in a particular country), and site visit support (e.g., identifying locations for investors in export processing zones). Clients of investment promotion programs tend to be foreign manufacturing firms, either U.S. or other foreign firms interested in investing for export in a developing country.

The 10 institutions studied include both established organizations and institutions whose creation was directly related to A.I.D. sponsorship and funding (see box).

Promotional Institutions Studied

CENPRO, the Center for Promotion of Exports and Investment, a public sector promotional unit in Costa Rica targeting both local firms and foreign investors

CINDE/PIE, the investment promotion division of the Coalition for Development Initiatives, an A.I.D.-sponsored private entity in Costa

Rica targeting primarily foreign investors in the manufacturing sector

CINDE/CAAP, the agricultural development division of the Coalition for Development Initiatives, an A.I.D.-sponsored private entity in Costa Rica targeting local and foreign agricultural firms

CORFO, the Development Corporation, a Chilean Government organization charged with a broad range of credit and promotional functions for private firms and parastatals

FUNDACION CHILE, a private Chilean entity supporting transfer of agribusiness technology

GEXPRONT, the Guild of Nontraditional Exporters, an established membership organization in Guatemala targeting primarily local firms in the manufacturing and agricultural sectors

IPC, the Investment Promotion Council, an A.I.D.-sponsored private entity in the Dominican Republic targeting primarily foreign investors in the manufacturing sector

JACC, the Council for Agribusiness Cooperation and Co-investment, an A.I.D.-sponsored membership organization in the Dominican Republic targeting primarily local firms in the agricultural sector

PROCHILE, a new governmental unit charged with promoting Chilean exports

PROEXAG, the Support Project for Exporting Nontraditional Agricultural Exports in Central America, an independent project implementation unit operating in Central America and targeting local and foreign agricultural firms

The programs made available by these institutions were analyzed primarily in terms of 32 direct services offered to client firms, which were organized into five broad categories: information, private contact-making, investment and export support (site visits, accounting, legal services, and so on), technical assistance, and government facilitation. These services and their use and usefulness, costs, and impacts were studied through review of available documents, interviews with the promotional institutions, USAID Mission personnel and other in-country sources, and a survey of 162 exporting firms in the four countries (including 110 firms drawn randomly from lists of assisted firms supplied by the ASIs and the Chilean organizations, and 52 unassisted firms drawn randomly from lists of exporters).

The study's analyses are organized by five issue areas, each of which is treated in a separate paper presented in the second volume of this study:

1. The country export performance and the role that macroeconomic policies have played in contributing to this performance.

2. The assistance strategy followed by each of the promotional institutions, and the translation of this strategy into direct services to firms and other activities.

3. The use of these services by exporting firms, and their impact on the firm's performance.

4. Program sustainability, with or without continued A.I.D. support.

5. The level of economic benefits generated by A.I.D.'s investment.

The study gave special attention to three distinctions identified as central to A.I.D.'s strategy: the assistance sector (agriculture versus manufacturing), the target clientele (export promotion aimed at local firms versus investment promotion aimed at foreign firms), and the country level of development (established exporters versus new entrants).

This synthesis makes no effort to retrace each element of the analysis; the specific findings are detailed in the issue papers presented in the companion volume (CDIE Working Paper No. 146, available from the A.I.D. Library). This synthesis focuses instead on the bottom line - the study's implications for A.I.D. trade and investment programming. It is organized by the five issues cited, focusing on whether assistance to promotional institutions has an impact, whether it provides an attractive return on A.I.D.'s investment, and how the Agency can best carry out promotional programs. No study can answer these questions definitively, but the authors believe that the study findings imply a need to rethink some of the assumptions underlying A.I.D. support to export- and investment-promotion organizations.

2. DO PROMOTIONAL INSTITUTIONS PROVIDE USEFUL SERVICES?

The survey of assisted and unassisted firms provides overwhelming evidence that firms use and value the services provided by promotional institutions. Perhaps the most convincing evidence supporting this statement is that assisted manufacturing firms have generally outperformed unassisted firms in generating exports and jobs. Figure 2 compares the performance of these two groups over the 1986-1989 period.

Investors, however, clearly value some services more than others. The table on page 8 shows the services ranked most useful by exporters and investors responding to a survey of assisted firms. The table supports three conclusions:

All categories of firms highly valued information on markets and buyer contacts. Technical assistance for production was highly valued by local agricultural firms.

ASIs are an important source of information services for assisted firms.

Other professional services, for example, legal and accounting services are used and valued by the firms but are adequately supplied by the private sector.

The usefulness of each of the services was assessed by using the survey data to measure how closely service use (regardless of the source) was related to export or employment increase. This approach supports the overall conclusions reached, although the specific list of high-impact services inevitably varies somewhat from one analytic approach to another.

Survey Data on Ranking of Services

Service	Percentage of Firms Ranking the Services as Important to Their Operation	Percentage of Firms Receiving Services From an A.I.D.-Supported Institution
Investment Promotion Client: Foreign Manufacturing Firms		
Legal Assistance	59	0
Customs Assistance	54	4
Assistance with Government Approvals	52	17
Site Visit Support	50	59
Printed Information on the Country	45	60
Question-and-Answer	45	40
Export Promotion Client: Local Manufacturing Firms		
Buyer Contacts	78	29
Information on Foreign Markets	67	17
Technical Assistance for Production	56	0
Accounting	50	0
Credit	50	0
Training	50	33
Client: Local Agricultural Firms		

Information on Foreign Markets	73	36
Buyer Contacts	73	48
Technical Assistance for Production	71	75
Question-and-Answer	53	94
Printed Information on the Sector	50	72
Trade Shows	50	65

Source: Survey Data.

Note: Shown are the six services in each category exporters and investors ranked most useful. The rating is expressed as the percentage of all firms surveyed that stated that the service either had an impact on their export operation or was critical to their operation.

3. DO PROMOTIONAL INSTITUTIONS HAVE AN IMPACT?

The evidence in this study strongly suggests that promotional institutions have a positive impact on exports from and investment in developing countries. Export- and investment-promotional institutions can make a contribution to export growth and diversification.

Sound promotional institutions and programs are therefore good candidates for donor support as part of a program to promote trade and investment. Particularly, where the climate for foreign investment and exports has improved soon after a long period of neglect, promotional institutions play a role in helping both local and foreign investors respond to the opportunities available.Nevertheless, an important reservation attaches to this affirmative conclusion: The direct impact of the promotional institutions on exports nationally is not very large. The study found that exports for which the promotional institutions were directly responsible amounted to only a small share of the total growth in nontraditional exports, about 5 to 30 percent. Consequently, promotional institutions by themselves are not enough to increase nontraditional exports. Their impact is simply too small at the national level, unless A.I.D. support is very large relative to national exports.

The study suggests a rough rule of thumb of a $5 increment to exports in the short term for each dollar invested to promote foreign investment and perhaps one third that level (or $1.65) to promote agricultural exports. Nevertheless, agricultural exports on average tend to have considerably more domestic value added per dollar of exports than light manufacturing exports resulting from foreign investment. In fact, $2 in export value added per dollar of investment to promote foreign investment and $1.40 in export value added to promote agricultural exports may be a more meaningful comparison.

(These figures are based on study team estimates.) This suggests a somewhat faster payoff (at least in the initial stages of export development) to foreign investment promotion.

These are extremely rough estimates derived from the survey data, but they suggest that promotional institutions are likely to have a substantial impact on exports in percentage terms only when expenditures are high relative to the nontraditional export base. Costa Rica's experience with CINDE/PIE, which claims direct involvement in exports amounting to roughly half the increase in nontraditional exports since 1983, is an example of a substantial impact achieved through large expenditures. IPC is an example of an institution that produced relatively small impact by spending much less money to support a much larger and more established export sector.

All of these findings apply only to cases in which policies favor export and investment. For situations in which the policy environment is not favorable to exports, the returns to promotional investments are far less certain. The cases studied were chosen to represent promotional programs in relatively favorable policy environments; the study's conclusion therefore applies only to such situations.

In a favorable policy environment, promotional institutions can help expand exports and can provide an attractive return on the donor dollar; this conclusion does not necessarily apply to an environment in which export-oriented investment is not financially attractive.

The value of promotion comes from helping firms recognize and act on profitable opportunities more quickly than they would on their own. In a negative policy environment, such as one characterized by overvaluation, severe restrictions on imports, and complex investment regulations, profitable opportunities are few and far between. A promotion campaign cannot disguise, much less change, this reality.

4. DOES SUPPORT TO PROMOTIONAL INSTITUTIONS PAY OFF?

Support to promotional institutions can offer an attractive economic return to donor resources. The cost-benefit analysis for this study estimated the economic rate of return on the total costs of the promotional institutions to be about 25 percent in real terms. This rate of return, however, is quite sensitive to how the benefits are measured or, in other words, how the role of the promotional institution is measured.

Promotional institutions generate benefits by increasing the number of jobs and the amount of exports, but only indirectly; the firms they assist generate the benefits directly. How much of these benefits should be attributed to promotional institutions? For example, if a given investment would not have taken place without an institution's support, is it appropriate to attribute all or only a part of the economic gains to the institution? What if the investment might have or surely would have taken place without the assistance?

To produce the analysis reported here, the study asked the assisted firms surveyed to attribute credit to services that made their investment go forward, and it used their responses and other measures of attribution to assign a portion of the estimated economic benefits to the promotional institutions. By using this method, the portion of economic benefits credited to the institutions ranged from a low of 31 percent for IPC to a high of 73 percent for CINDE/PIE.

Despite the difficulties associated with measuring attribution, the rate of return estimated must be regarded as highly conservative, for two reasons. First, the analysis looked only at the direct and short-term employment and export benefits generated by the investments for which the institutions claimed credit. Other benefits, including future growth of the firms or spin-off investments that resulted from the initial venture, were excluded. Second, the analysis did not include any benefits derived from the general promotion activities of the institutions (such as advertising campaigns) or their participation in the export-policy process, although the costs associated with both activities were included. Please refer to Volume 2 of this study (CDIE Working Paper No. 146) for further details on the cost-benefit analysis.

5. WHAT ARE THE BEST SERVICE STRATEGIES?

As the discussion of service use and impact in Section 2 demonstrates, no single service mix is optimal for all conditions; there is no magic formula for effective promotion. The study does, however, suggest several ingredients that should be at the top of the list in developing the right mix for a specific situation.

Determining the Institutional Structure

Based on analysis of the various combinations of services and institutions, the study found several alternative strategies that appear to work. Each viable strategy consists of three elements:

1. Clientele: Local exporters valued services that were altogether different from those valued by foreign investors. Agricultural and manufacturing firms valued similar types of information-based services, but the nature of the information is sector- and product-specific. Agricultural firms differed from manufacturing firms in placing a higher value on technical assistance for production.

2. Service strategy: Services may be customized (adjusted to the needs of the individual client) or standardized (provided in the same form to a large number of clients). Services may be concentrated on a few clients, generally members of a specific target clientele, or they may be diffuse, providing a little assistance to many firms. Customized service programs tend to be concentrated, because of budgetary constraints, and standardized programs tend to be diffuse.

3. Institutional structure: Each strategy that was identified uses one (or at most two) of the following institutional structures: a membership organization, a government unit, an independent private entity, or a project implementation unit.

The study arrives at three key findings for these elements and their interaction to form a viable strategy:

1. An effective promotional program can be developed for each of the clientele groups (foreign firms, local manufacturers, and agricultural firms) but the different needs of each group imply that any given program should be directed at only one clientele group.

2. A customized, concentrated service strategy can be made to work well for each clientele group as can a standardized, diffuse strategy, but not both at the same time in the same institution.

3. Once the clientele and service strategy are selected, a single institutional structure appears to work best.

The type of information needed by each group, and the service strategy best suited to providing that information, emerged as the critical determinants of the strategy for institutional assistance.

Determining the Needs of Different Clientele Groups

Capturing new firms in the net of potential investors may be a more important determinant of the success of a promotional program than how well the program serves firms once they are identified. Firms, whether foreign or local, make investment decisions based on expectations of profit, which are shaped by such fundamental factors as wage rates and foreign exchange policies, not by a sales job. Thus, information, including standardized information on prices and operating conditions, emerges as the single most important ingredient in a strategy to expand the pool of candidate investors and exporters.

For investment-promotion institutions, the best way to bring more firms into the net is to find as many foreign firms as possible interested in overseas investment, and then do everything possible to get the promoted country on the short list of those firms. Once a given firm decides to seriously examine the target country, the most important work of the promotional institution is done. The firm's decision will be based primarily on the fundamental suitability of the country for the planned investment, not on how well the site visit was planned. Additional promotional support is important primarily to ensure that the firm obtains the right information on the country and makes the right private sector contacts; the information and the contacts, not the assistance as such, will make the difference.

A similar picture emerges for local export firms. The promotional institution can expand the number of local firms in the net most easily by finding firms that are ready to export and helping them contact overseas buyers and learn how overseas markets are organized. For manufacturing firms (and agricultural firms selling a specialized product for processing), this may be enough. Most of these firms engage in contract production, and the study found that their buyers provide the technical assistance they need.

For agricultural firms selling into the fresh market, however, information may not be enough. Local agricultural firms surveyed highly valued technical assistance for production. These firms sell to dealers who, unlike contractors, often do not have interest in helping their suppliers improve the quality, efficiency, or productivity of their operation. Technical assistance for production may therefore be important to this type of agricultural firms, and they have few alternative sources to turn to for help. Technical assistance may also be important for foreign firms, which must wrestle with the same location-specific technical problems as local firms when trying to introduce the same crop.

In all three cases, the missing ingredient provided by the promotional institution is information, but the specific nature of the information varies with the clientele. Generalizing across all three groups, two types of information are needed:

> Facts about the market and how it works: For foreign firms, market information must focus on the cost of production in the target country; for local firms, market information must include price data in overseas markets and information on import regulations.
>
> Contacts: For foreign firms, contact information includes referrals to local professional firms, suppliers, free zones, and the like; for local firms, the most important contacts are potential foreign buyers.

Standardized information should not be overemphasized, however. Customized services, particularly technical assistance, were also highly valued by local firms, especially agricultural firms that were assisted. The study, however, found that technical assistance is much more expensive per recipient. Local manufacturing firms were often able to get assistance from their buyers, whereas local agricultural firms get technical assistance principally from ASIs. Still, with a limited level of funding, many more firms can be provided with information than with technical assistance.

The finding that information is the key ingredient in service is attractive for both practical and theoretical reasons. On the practical side, standardized information is one of the cheapest services to provide on a per-firm basis. Nevertheless, it would be premature to conclude that relatively inexpensive forms of information outperform more expensive forms, dollar for dollar; additional research is needed on this issue.

A second practical advantage of standardized information is the relative ease with which it can be offered. Local personnel with little experience or specialized knowledge can be trained to assemble, organize, and provide their clients with information from existing databases on prices, directories, and other readily available sources.

From a theoretical standpoint, information for the public good justifies the subsidy inherent in donor support to promotion. Subsidies are most appropriate when there is market failure, and poor or uneven availability of information is among the most common causes of market failure, particularly in developing countries emerging into export markets.

What about firms that are not in a position to benefit from information? Does a strategy designed around information needs mean that a firm requiring more help should be pushed to the back of the queue? Yes, it does, if the same amount of assistance can help several firms to export (and create jobs and earn foreign exchange), instead of helping one firm to almost export.

Working on the Investment Frontier -- Key to Success

A strategy based on information does not imply that promotion should be a temporary activity, continued for a relatively brief period at the end of which all firms have the information they need. On the contrary, information-based promotion should arguably continue indefinitely, always seeking to operate at the frontier where a new crop of firms needs assistance:

> For local firms, the frontier moves as new firms reach the point at which they have the basic capability to export but need help in contacting

a buyer who can provide the technical assistance and marketing expertise to enable them to move into the export market.

For foreign investors, the frontier shifts as changing conditions in the target country make it attractive to firms in sectors that do not have an established presence in the country.

The frontier is not stable across countries or even within the same country over time. Even a country that is well known in a particular sector - as the Dominican Republic is in textile assembly - may be all but unknown to potential foreign investors in another sector, such as pharmaceuticals or data processing. A change in the local policy climate (or, equally likely, a change in U.S. import restrictions) may create a newly profitable niche that foreign investors will fill if they know it exists.

The frontier is equally mobile for local export firms. In export promotion, just as in investment promotion, a shift in policy can create a new opening for exporters or can slam shut a window of opportunity. At any given time, the national entrepreneurial base is made up of a relatively small number of firms that are already established exporters (and therefore do not need assistance), a very large number of firms that are not even close to being ready to export, and a number of firms in the middle. This last group is the most appropriate target for assistance, whether support is intensive and customized or diffuse and standardized.

Promotional organizations need flexibility and the planning capability to locate the frontier and then to adjust their program accordingly. If the institution plans to exist for long, it needs the capability to keep up with shifts in the frontier over time, as local and international market conditions change. It is noteworthy that very few of the institutions studied have these capabilities.

Services: Customized and Targeted or Standardized and Widely Available?

If there is a conventional wisdom in trade and investment promotion, it is that customized, targeted, intensive services have an impact and standardized, diffuse services do not. Taken to the extreme, the conventional wisdom characterizes standardized services as the choice of government institutions that lack the resources and expertise to do anything else, and customized services as the preferred option, the Cadillac of promotional programs.

A principal finding of this study is that this conventional wisdom may well be wrong. Standardized services, such as printed information and foreign market price information, are among the services firms are most likely to receive, and, more important, are among the services most likely to have an impact on the recipient - foreign or local. Whether the measurement of impact is based on the statistical correlation with export growth or on the firms' own assessment of impact, standardized information services consistently ranked among the most important services.

Contrary to the team's expectations, the investors interviewed repeatedly emphasized the value of standardized information provided by brochures, handbooks, and short courses. One free-zone investor in the Dominican Republic, for example, stated that even with several years of experience in the country, he never made a move without consulting the American Chamber of Commerce's handbook on investors.

Furthermore, several investors were highly disparaging of special studies conducted on their behalf, both by ASIs and by the private sector, criticizing them as too general, too optimistic, inaccurate, and lacking vital information on how to make contact with buyers.

6. CHOOSING THE RIGHT INSTITUTION MODELS

Models With Potential for Success

The study identified four viable models for delivering services, based on the different needs of each clientele group. All four models emphasize information, but they differ depending on the answers to three key questions:

1. Is the primary clientele foreign investors or local exporters?

2. Will the program primarily provide concentrated, customized assistance to a few targeted firms or standardized assistance diffused across a large number of firms?

3. How important is program sustainability?

The models represent refinements of existing strategies rather than major modifications to A.I.D.'s trade and investment program. At the same time they suggest a need to change some of the current assumptions and modify certain design elements now widely used, as further discussed below.

Export promotion and investment promotion require different services and different skills and, as a result, should arguably be housed in different organizations. The same is true of customized versus standardized studies and of agricultural versus manufacturing firms.

The four models combine viability with effectiveness to serve these different groups. These models, shown in Figure 3, provide a range of options to fit different target groups and varying levels of resource availability. For investment promotion, the study identified two institutional models: Model 1 consists of a government unit providing standardized services to investors, and Model 2 consists of an independent private entity providing customized services to investors. For export promotion, two models were presented: Model 3 consists of a membership organization providing standardized services to its membership. Model 4 consists of a project implementation unit providing targeted services to exporters.

Models 1 and 3 can be structured for sustainability without a large and continuing infusion of donor funding: the government promotional unit supporting foreign investment and the membership organization supporting local exporters.

Models 2 and 4 are unsustainable: they rely on outside funding for continuation of the program. These include the independent private entity promoting foreign investment and the project implementation unit supporting local exporters. These models should be either structured with a predetermined life span or provided with a permanent source of revenue that is not directly related to services (such as an endowment).

Why We Cannot Say Which Model Works Best

The study was not able to determine which model has greater impact and offers a higher return, for two related reasons. First, most of the programs examined combine customized services provided to a few firms with standardized services provided to a larger clientele, making the impact difficult to separate. Second, none of the programs that rely most heavily on a diffuse service strategy (JACC, GEXPRONT, CENPRO) keeps a tally of exports or investments for which it claims credit. This failure is not evidence of sloppy management (or at least not entirely so); by their nature, programs following a diffuse strategy do not have sufficient contact with any given firm to enable them to track the export performance of the firm assisted.

Although the lack of data prevents a definitive comparison of concentrated and diffuse assistance strategies, the survey findings cast doubt on the assumption that intensive, customized services for a few firms have a greater total impact than standardized services diffused across a larger population of firms. As noted in Section 5, many of the services that garnered high praise from the assisted firms fell into categories suited to providing a standardized service to a large number of firms.

The lack of impact data inherent in diffuse assistance strategies is a disadvantage from the standpoint of the donors: these programs do not generate the proof of impact that donor agencies like to see (and be able to show). Programs following the concentrated service model work intensively with a few targeted firms. They tend to maintain records on the performance of their flock over time, particularly if they are keen to keep donor funds flowing. They can argue that gains made are due to their assistance (although they generally cannot offer proof in the form of a control group).

The bottom line is that low-intensity, diffuse-service programs may have just as much impact as, and may be more cost-effective than, the concentrated service models, but the programs cannot prove it.

What Needs To Be Changed in A.I.D.'s Support to Promotional Institutions?

What is excluded by the four models presented? At first examination, it might seem that they include everything A.I.D. is already supporting, but this is not the case. The models imply a need to modify A.I.D.'s assistance strategy for trade and investment promotion in order to recognize several realities:

- Increasing fee income alone is not the answer to achieving sustainability and may not even be desirable.

- Expertise in U.S. markets and production technologies cannot be maintained by local institutions.

- Targeting is generally not feasible for membership organizations.

- Export- and investment-promotion programs have different needs that do not necessarily fit well together.

- Customized, targeted programs are not sustainable, but may be worth supporting anyway.

Rely More on Fee Income To Provide Sustainability?

Project designers have been somewhat cavalier in assuming that fees could and should be collected to improve institutional viability and performance. The study suggests that fees have a useful role to play but that they are not an adequate source of revenue for sustainability, nor are increased fees necessarily conducive to promoting more effective institutions.

Fee income is highly desirable for institutions that work with local firms (both membership organizations and independent project implementation units) as a means of rationing services, generating income, and, for membership institutions, building ties to their clientele. Fees do not provide an adequate basis for sustainability, however, because fees for full cost recovery on customized services would have to be unrealistically high, particularly if they are also to cover the costs of vital policy and promotional services. Membership organizations can become self-sustaining if they focus on inexpensive, standardized services, for which costs can be recovered fully, and if they rely on dues to supplement their overhead and to support a modest program of lobbying and other indirect services.

Fee income is much less desirable and appropriate for investment-promotion organizations, for several reasons. First, these organizations would have great difficulty charging fees for much of what they do (making unsolicited calls to investors, for example) without damaging their image and that of their countries'.

Second, and perhaps more important, pressure to generate fees may actually interfere with their effectiveness:

> A need to generate fees encourages investment-promotion institutions to target the easy sectors (e.g., textiles in the Dominican Republic), rather than to target new sectors on the frontier.
>
> Many fee-generating schemes would interfere with the institutions' credibility as impartial sources of reliable information for investors.

A.I.D. must think much more carefully and realistically about fee income and its role in the service strategy and the long-term viability of the institutions supported. Fee income is not the only answer to financial sustainability. On the contrary, as argued above, overreliance on fee income may be prejudicial to the effectiveness of the institution. Alternative sources of income should also be considered, including donor-funded endowments, taxes on exports or free-zone licenses, and income from highly profitable services (such as preclearance of horticultural exports) offered by the institution on a monopoly basis.

Nor is fee income the only, or necessarily the best, way to ensure accountability. The example of PROCHILE suggests that, even for public sector organizations, performance tends to improve when a management structure provides for direct input from private sector management. Both Chile and the Dominican Republic provide examples of power struggles between public and private sector interests over who will control an independent private entity. A.I.D. cannot realistically prevent such power struggles in investment-promotion organizations, which by their nature serve a clientele that is not involved in management: potential foreign investors. But by withdrawing funding, A.I.D. can ensure that any government triumph in such struggles will be a Pyrrhic victory.

The problem of private sector accountability is by no means limited to public sector organizations. Membership organizations that are heavily dependent on A.I.D. financing have tended to be more responsive to A.I.D. priorities and less responsive to their membership. To avoid this danger, A.I.D. should accept a slower growth rate of services provided by these organizations to ensure that they do not expand beyond the capability of their membership to control and finance their activities.

Establish In-House Technical Expertise?

With the exception of the independent project implementation unit, none of the organizational structures examined has proved adept at establishing and maintaining a high level of technical expertise. They tend to be staffed at the operational level by capable but inexperienced personnel and have a high turnover rate. This lack of technical expertise is not a problem for investment-promotion organizations, which serve a comparatively sophisticated clientele and can quickly train new hirees in the local knowledge needed.

Lack of expertise is a problem, however, for export-promotion organizations, which serve local firms needing technical assistance and buyer contacts. This situation has two alternative solutions: (1) limit assistance to standardized services (such as referrals from published directories) requiring little expertise or (2) provide a mechanism to make additional technical expertise available to these institutions.

Because production knowledge and buyer contacts tend to be highly sector-specific and expensive, they should be targeted. As a result, they are best structured as separate, temporary, donor-supported programs rather than as permanent, membership-wide services wholly supported by fees. Membership organizations have great difficulty favoring subgroups within their membership (see next section).

Within export promotion, the areas of expertise required by local firms in the agricultural and manufacturing sector are similar in type but different in content. Many local firms are likely to need technical assistance in production, for example, but the nature of the help needed by an avocado producer is very different from that needed by a textile firm. The breadth and specificity of technical and market information needed suggest that export-promotion programs providing customized support for agricultural and manufacturing firms may need to be implemented separately, although standardized services can be provided to both by the same organization.

Use Membership Organizations to Target Services?

The study found that membership organizations had particular difficulty providing customized, concentrated services. Because these organizations depend on membership support, they are pressured to make their full service menu available to their entire membership. The combination of a highly diverse membership (producing many different products) and technical needs that vary greatly by product is not consistent with efficient provision of customized services. JACC, for example, has 33 priority products. Avocado growers are not willing to see their money used to provide technical assistance to pineapple growers, at least not if they do not have access to the same assistance.

There are three ways out of this dilemma: (1) Use a project implementation unit, which is not answerable to a membership and which can serve whatever audience A.I.D. defines; (2) confine customized, targeted services within a relatively small and separate program clearly labeled "donor-funded," not "member-funded"; or (3) provide customized services through a project implementation unit in cooperation with more widespread standardized services provided by a membership organization.

Use the Same Institution for Both Export and Investment Promotion?

Several of the programs examined combine export and investment promotion. (CINDE, for example, started as an export promotion program and then shifted to investment promotion and is now shifting back to concentrate on local firms.) The study suggests that each organization should have a clear mandate to serve either foreign investors or local firms but not both. This is particularly true for the customized service model, although it is also true for standardized service strategies, for two main reasons:

1. Foreign firms need different services and information than do local firms, so the gains from combining services to the two clientele groups are unclear. Unless the special information and assistance that local firms need can be managed and provided by an outside source (such as the International Executive Service Corps), it will be difficult to manage the range of services required by the two groups.

2. Each type of promotion requires a different level and type of technical expertise. Export promotion generates a much greater demand for technical expertise (including detailed knowledge of foreign markets) than does investment promotion, particularly when customized services are provided, and therefore requires a different and more experienced personnel base.

The need for separate programs and for separate staff for each does not necessarily rule out parallel programs within a single organization, although the gains from doing so are far from self-evident. Additional time is needed to determine whether CINDE's attempt to carry out these different functions through parallel but separate divisions within the same organization will prove effective.

It should be emphasized that the need for technical production knowledge is greater in the agricultural sector for both foreign and local firms. Whereas the technology for most manufacturing operations poses the same problems wherever it is applied, each country's climate, soil, and pest conditions raise special problems. Foreign firms are likely to encounter almost as many difficulties as local firms in introducing a crop to a new location, but their greater resources and experience base nonetheless mean that they have less need of assistance from an institution supported by A.I.D.

Aim for Sustainability?

A private enterprise officer interviewed suggested that sustainability is not an appropriate goal for promotional programs. He argued that ASIs have done their job when a sufficient number of export-oriented firms have been developed. Once this has been achieved, the firms themselves will maintain pressure for policies favoring exports and will attract new investors through private contacts. This argument is attractive.

It was argued earlier, however, that promotion is never completed: There is always a new frontier for the promotion of foreign investment and a new crop of local firms ready to graduate to the export market. This conclusion by no means implies, however, that export- and investment-promotion programs are only worthwhile if they continue indefinitely. On the contrary, the study found that these programs can be justified economically on the basis of their short-term and immediate benefits alone, regardless of any later benefits provided by the institutions developed. This finding is fortuitous, because many of the programs will indeed cease to exist for all practical purposes once A.I.D. funding ends.

Two of the models presented are viable only as long as outside funding is provided. They can survive the withdrawal of A.I.D. funding, but only if another source of funding, such as an endowment or other donor support, takes its place. As a practical matter, a Mission undertaking a program based on one of these models must either build in such support or plan for the program to wither away.

Sustainability is equally problematic for public and private institutions, although for different reasons. Public investment-promotion institutions can be effective and sustainable, but only where they are a component of (not a substitute for) a strong export-oriented policy. If the government's commitment to building exports and attracting foreign investment is weak, any program dependent on its support will flounder. Private sector promotion of off-shore investment is fundamentally unsustainable, because it lacks a paying clientele. Private promotion of local exports is sustainable, but only at the fairly low level that is consistent with modest income from membership dues and fees for services. Large-scale programs providing customized technical assistance do not appear to be either financially or technically sustainable, wherever they are based.

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